

# **CHINA TRADE IN AMERICA'S PACIFIC STRATEGY**

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Thank you for inviting me to speak with you this afternoon. Let me also offer my special thanks to the Bloomberg News Service as sponsor of our meeting.

This afternoon I will address America's trade relationship with China, and in particular our negotiations on China's membership in the World Trade Organization. I will offer some thoughts on our present relationship and its future; but let me begin by recalling an event of the past.

## **PACIFIC STRATEGY**

This year marks the centennial of the U.S. Open Door Policy, which Secretary of State Hay announced in 1899. The Open Door was, on the surface, a trade policy. It drew its name from the note Hay sent to the European powers and Japan, calling on them to accept "perfect equality of treatment for navigation and commerce" for all countries trading with China.

The implications of this, however, were broader: an opposition to colonial plans in China; a determination to assert our own interests as well. This policy set a pattern for us in the 20<sup>th</sup> century: America is a Pacific nation; we have a vital interest in a peaceful, open and prosperous Asia-Pacific; and we will act to secure that interest. And our policies today are firmly in this tradition.

We make an unshakable commitment to peace and security in the region through 100,000 troops in the Pacific; strong alliances with Japan -- now strengthened by the passage of the new defense guidelines in the Diet's lower house last week -- and other Asian democracies, and work with all Pacific nations in bilateral talks, the ASEAN Regional Forum and elsewhere.

We vigorously support human rights, democratic principles and the rule of law, in bilateral relationships and at the UN Commission on Human Rights.

And we seek an economic environment of open trade and sustainable growth through our response to the Asian financial crisis, bilateral trade negotiations, work in APEC, and the World Trade Organization.

## **THE PLACE OF CHINA**

China, as Asia's largest nation and fastest-growing economy, has an inescapable part in this strategy. We do not always agree with China, and we are prepared to assert our interests when we disagree. We have done so in trade, including through sanctions. But we are also committed to find and develop areas of common ground.

This is true in security issues: stability in the Korean peninsula, peace in the Taiwan Strait, and control over weapons sales. On human rights, Red Cross access to prisons and religious freedom. On transnational questions from climate change, to narcotics control and protection of the oceans. And fundamental to this policy, for the sake of our economic interest and as a complement to our strategic, security and human rights policies, is support for the integration of China into the Pacific and world economies.

We base this on our economic interests; but also our historic experience. It is not long ago, after all, that China was economically isolated. For nearly forty years after the Communist Revolution, its economy was almost entirely divorced from the outside world. This was vastly damaging to both China and the Pacific region. The loss of foreign markets and investment impoverished China at home. And it meant Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

Our effort to undo this isolation has been a continuous and bipartisan feature of American foreign policy, comparable to our support for the economic reintegration of Japan and Germany after World War II, and to our work in Eastern Europe and the former Soviet Union today. In China, it began with the lifting of our economic embargo in the mid-1970s; through our Commercial Agreement and mutual grant of MFN status (now Normal Trade Relations) in 1979 and 1980; the renewal of normal trade relations for the past 20 years; and through the market access, textile and intellectual property agreements of the 1990s.

## **RESULTS OF INTEGRATION**

These agreements are policy achievements aimed directly at opportunity and fairness for American businesses, farmers and working people. But they are also initiatives with broader implications: they deepen China's integration in the world and Pacific economy; accelerate China's adoption of international standards of behavior in commerce and law; and increase the contacts Chinese businesses, working people, mid-and-lower officials, and families have with the outside world. And thus they complement our broader Pacific strategy.

### **1. Security**

In security, for example, the implications of China's growing entry into the Pacific and world economies are clear.

Broadly speaking, China has moved away from revolutionary policies utterly at odds with

American interests. And it has moved towards a role as a major regional power willing to play a constructive part in some of the principal regional issues.

China's stake in regional prosperity and stability is evident in the Asian financial crisis. Thirty years ago, China might well have seen the crisis as a chance to foment revolution in Korea and Southeast Asia; today it is a threat to China's investment prospects and export markets, and China has thus maintained currency stability and contributed to IMF recovery packages. It may also play a role in China's normalization of relations with South Korea and participation in the four-party talks.

## **2. Human Rights and Freedom**

And at the same time, China's economic integration has played a fundamentally important role in the vast changes in Chinese life over the past two decades.

As internal markets have opened and foreign investment grown in China, a generation of Chinese young people have grown up free of "work units" and other forms of government control over jobs, housing, marriage and informal conversation. As trade has grown, tens of millions of Chinese citizens, for the first time since 1949, have gone to work for foreign, Taiwan and Hong Kong companies; have met and spoken with foreigners and overseas Chinese; have access to new forms of telecommunications that inherently open up new sources of information and debate. Over 2000 years ago, the philosopher Han Fei-tzu noted the link between trade and freedom from state power; it is still valid today, when the worst periods of China's modern history – the years of the Great Leap Forward and Cultural Revolution – were those when it was most tightly closed to the outside world.

And the trade agreements themselves represent acceptance of deeper concepts: development and publication of laws and regulations; consistency in decision making; recourse to law enforcement and judicial proceedings; curbs on the arbitrary exercise of bureaucratic discretion. And these in turn rest upon more universal values and ideals. Transparency. Public and enforceable commitments. The rule of law. These are concepts fundamental to any society that lives by the law and respects the rights of citizens.

## **U.S.-CHINA TRADE RELATIONS TODAY**

But the work is far from done. China's formal and informal trade barriers remain high. Its agricultural standards are based on bureaucratic fiat rather than science. Key service sectors like distribution, finance and telecommunications remain largely closed to foreign competition, depriving China of jobs, efficiency and innovation in rural and urban economies. In critical sectors – autos, telecommunications, semiconductors -- we see not only high tariffs but quotas, subsidies and more. Other unfair practices -- forced technology transfer, offsets, export performance and local content requirements -- are frequent. And the rule of law – crucial to any advanced economy – is undeveloped throughout the Chinese economy.

Thus, China remains insecurely integrated, and only opportunistically so, with the world outside. At home, its economy faces severe challenges which, over time, more open trade could help to solve. And China's neighbors -- including ourselves -- remain blocked from an economy which could be an engine of growth in the financial crisis and in the future.

One index of this is our trade deficit with China, now over \$1 billion per week. Another is that between the opening of Normal Trade Relations (formerly MFN status) in 1980 and 1997, our goods exports to China grew only \$9 billion -- barely half of our \$16 billion in export growth to Taiwan, and less than a quarter of our \$39 billion in export growth to the ASEAN nations.

This is a fundamentally unbalanced, unsustainable situation. Tension and frustration over it within the United States is growing; and it is quite possible that without change, trade could lose its role as a source of stability and mutual interest and become another source of division.

### **U.S. POLICY IN WTO ACCESSION**

China's accession to the WTO is an opportunity to address the issues at the root of these problems.

- As a matter of trade policy, a sound agreement will open Chinese agricultural, manufacturing and services markets to our exports, strengthen the trading system itself, and give American workers and domestic industries stronger protection against unfair trade practices and import surges.
- As a matter of strategy, WTO membership -- like our previous trade agreements, but in a much more profound fashion -- will complement our efforts to maintain stability in the Pacific by linking China's economy more closely with the world's, strengthening constituencies within China for stability beyond its borders.
- And as a matter of values, the principles of the WTO -- transparency, fair and impartial judicial practices, peaceful settlement of disputes, the rule of law -- are those we hope to advance in China and worldwide.

### **COMMERCIALLY MEANINGFUL ACCESSION ESSENTIAL**

Of course, at bottom the WTO accession is a trade deal. And any agreement on WTO accession must be commercially meaningful.

The result must address the major barriers to American exports in goods, services and agriculture. It must address our concerns in other areas: abusive investment practices intended to draw jobs to China or take unfair advantage of American research; and unique issues arising from China's status as an incompletely reformed non-market economy. And it must do so in a detailed, enforceable and rapid way. For those of you who are superstitious or like folklore, 1999 is the

Year of the Rabbit, and tradition has it that “if someone signs a contract with a rabbit person, there can be no backing out.” I prefer detailed, measurable and enforceable commitments.

To this task we have brought some lessons learned elsewhere. Since 1995, we have brought five transition economies -- Slovenia, Bulgaria, Mongolia, Kyrgyzstan and Latvia -- into the WTO. This year we have completed bilateral negotiations with Estonia, and made significant progress with another six: Albania, Armenia, Croatia, Georgia, Lithuania and Moldova. We are also working with Russia, Ukraine, the Indochinese nations and others. China is by far the largest such economy and is unique in many ways. But our goals are consistent; and many of the issues involved -- transparency, state enterprise, subsidies, transitions to market pricing -- have some parallels in these other, smaller economies.

So, by the way, do the lessons for the acceding countries. The successful applicants thus far have made commercially meaningful commitments in all areas, and found them immensely beneficial for their own domestic reform efforts. Just as a weak, “political” accession would neither be fair to China’s major trading partners, nor to strengthen the global trading system, so it would not yield its full potential for economic efficiency, support for domestic reform and sustainable growth in China.

Thus we rejected attempts by China to win a political accession at the creation of the WTO in 1995 and before the Presidential Summits in 1997 and 1998. We are committed to commercially meaningful principles in the issues that remain. But while we have not yet reached agreement on such a package, in the past months we have made very significant progress toward the goal.

### **PROGRESS THUS FAR**

To be specific, we have completed negotiations on agriculture and industrial goods, and addressed most of our concerns in services. We have consensus on a number of special Protocol, or rules-based, issues. And if this progress continues on the relatively limited issues which remain, we can bring the talks to a close soon.

Time does not allow a comprehensive review of the commitments we have reached, but let me make a few general comments. Overall, the set of commitments China has made contains four significant features:

- First, it is comprehensive. It covers agriculture, industrial goods and services; and unfair trade practices including quotas, other non-tariff measures, application of non-scientific agricultural standards, discriminatory regulatory processes, lack of transparency, export subsidies and other barriers to trade. It will address tariffs and other barriers at the border; limits on trading rights and distribution in the Chinese market; and restrictions on services. And it deals with subsidies, state trading, technology transfer, non-market economy dumping, offsets, export performance requirements and other rules issues.

- Second, it grants no special favors. It requires China to reduce its trade barriers to levels comparable to those of major trade partners, including some industrial countries.
- Third, it is fully enforceable. The commitments China has made in all areas are specific, measurable, and enforceable through our trade laws and WTO dispute settlement and other special mechanisms, including some of the Protocol issues.
- Fourth, its results will be rapid. The agreements on sanitary and phytosanitary standards concerning TCK wheat, citrus and meat are already in effect, lifting import bans of long duration. On accession to the WTO, China will begin opening its market from day one in virtually every area. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases to one to three years.

All these, let me note, are one-way concessions. They open markets, fight unfair trade policies and strengthen protection for American workers. But they require no market access, export control, or trade law concessions from the United States. Our import policies, domestic trade laws, and market access policies remain as they are today. It would exaggerate, but not be wholly untrue, to say that while the opening to China in the 1970s was an act of enlightened self-interest, a commercially meaningful WTO accession is self-interest without the adjective.

## **SPECIFIC COMMITMENTS**

Let me also make a few comments on the specific commitments.

In the Protocol, which establishes broad rules and frameworks for trade, we create a product-specific safeguard to address import surges. The Protocol will also ban forced technology transfer policies for investors. It will ensure that we continue to use “non-market economy” methodology in anti-dumping cases, and take account of China’s unique characteristics in subsidies. It will eliminate abusive investment requirements designed to take jobs to China: offsets, export performance, current-account balancing and local content. And it will guarantee China’s state trading companies and state-invested enterprises operate on commercial terms, and that their purchases are not subject to special or different rules. Again, we continue to discuss several issues, notably the duration of special provisions. While they will not continue in perpetuity, very rapid phaseouts are not acceptable.

With respect to the market access commitments.

Agriculture: China will apply sanitary and phytosanitary standards based on science. It will cut tariffs to an average of 14.5% for our priority items, and bind them at the applied levels. Thus, unlike many countries, China will not have a right to raise tariffs again after it enters the WTO. It will adopt a new and more liberal system of -- tariff-rate quotas -- in bulk commodities. And it will agree not to provide agricultural export subsidies – a major achievement in its own right, and a step toward our goal of totally eliminating export subsidies in the next WTO Round.

Industrial goods: China will grant rights to import and export products without Chinese middlemen, and to distribute products within China. It will cut its tariffs on average for U.S. priority items to 7.1% -- a figure comparable to most major U.S. trading partners. This includes participating in the Information Technology Agreement, and deep cuts in everything from autos to wood products, chemicals and construction equipment. And it will eliminate all quotas.

Services: China has made a comprehensive set of commitments extending from distribution to insurance, telecommunications, architecture, engineering, legal, travel and tourism, computer and business services, environmental services, franchising and direct sales, and more. Talks continue in several areas – banking, audiovisual, securities – but in several of these as well, China has made a set of commitments that already open significant opportunities.

These are a very broad set of commitments. They may well bring opposition from vested interests at home in China. But others have made comparable commitments, and China is entirely capable of making them as well. More important, WTO accession on commercially meaningful terms is good for China: it will mean increased employment, economic growth and social stability in the long run.

## **CONCLUSION: WTO ACCESSION IN LARGER CONTEXT**

As you know, our work is continuing in several specific areas: our negotiating team reviewed the outstanding issues with China in Beijing last week, and will resume talks in mid-May. We are committed to resolving those which remain; but also optimistic that they are manageable issues which can be resolved. And if we are able to resolve them, the rewards will be substantial.

As China's market opens, American businesses, farmers, and working people will find new opportunities in the world's largest nation; and they will have stronger guarantees that Asia's fastest-growing economy will operate more fairly.

As China joins the trading system, its ties with its neighbors – Japan, Korea, Southeast Asia, the United States – will grow; and with that will come stronger incentives for China to act in concert with the region to build a stable peace.

And as we realize these concrete, material benefits, we will also advance less tangible but equally important goals: fairer and more transparent practices; ultimately, the rule of law.

The result will help us reach the goals we have had for a century: an open and fair world economy; a China more open to the world and closer to the rule of law; a stable, prosperous and peaceful Pacific region. These are, ultimately, the goals of the Open Door policy of a century ago; but they will also serve us very well today.

Thank you.